

## Message Text

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ACTION EUR-12

INFO OCT-01 ISO-00 CIAE-00 DODE-00 PM-04 H-01 INR-07  
L-03 NSAE-00 NSC-05 PA-01 PRS-01 SP-02 SS-15  
USIA-06 AID-05 COME-00 EB-07 FRB-03 TRSE-00  
XMB-02 OPIC-03 LAB-04 EPG-02 SIL-01 OMB-01 AGRE-00  
/086 W

-----026733 011837Z /44

R 011550Z JUL 77

FM AMEMBASSY LISBON

TO SECSTATE WASHDC 2009

INFO AMEMBASSY BONN

AMEMBASSY BRUSSELS

AMEMBASSY LONDON

AMEMBASSY MADRID

AMCONSUL OPORTO

AMEMBASSY PARIS

AMCONSUL PONTA DELGADA

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BRUSSELS FOR EC

PARIS ALSO FOR OECD

E.O. 11652: N/A

TAGS: EGEN, ELAB, EAGR, PO

SUBJECT: ECONOMIC DEVELOPMENTS

REF: LISBON 4176 NOTAL

BEGIN SUMMARY. ASSEMBLY OF REPUBLIC HAS APPROVED IN PRINCIPLE  
NEW STRIKE LAW AND REVISION TO 1977 BUDGET. OFFICIAL FORECASTS  
FOR 1977 GRAIN CROP ARE VERY DISCOURAGING. GREATLY REDUCED  
YIELDS WILL MEAN INCREASED FOOD IMPORTS. LATEST FIGURES  
INDICATE INFLATION IS GAINING, ESPECIALLY FOR FOOD. AGRICULTURE  
MINISTER SIAD THAT PROPOSED NEW AGRARIAN REFORM LAW WILL EN-  
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COURAGE INTENSIVE CULTIVATION, INVESTMENTS, AND VIABLE FARMS.  
END SUMMARY.

1. STRIKE LAW, BUDGET REVISION APPROVED IN PRINCIPLE: ON  
JUNE 30 THE ASSEMBLY OF THE REPUBLIC APPROVED, IN PRINCIPLE, A  
NEW STRIKE LAW. THE PCP JOINED THE PS IN VOTING FOR  
THE LEGISLATION, WHILE THE PSD AND CDS ABSTAINED. A

PCP DEPUTY TOLD THE JULY 1 "O DIARIO" THAT THE LAW WAS AN IMPROVEMENT OVER THE GOP'S ORIGINAL PROPOSAL, ALTHOUGH THE PCP STILL WILL TRY TO IMPROVE SOME PARTS. IN THE NEXT SESSION THE ASSEMBLY APPROVED, ALSO IN PRINCIPLE, THE GOP'S PROPOSED REVISION TO THE 1977 BUDGET. THE REVISION WOULD HOLD THE DEFICIT TO 59.9 BILLION ESCUDOS (ABOUT \$1.55 BILLION), WHILE RAISING RECEIPTS BY 12.8 PER., TO 112 BILLION ESCUDOS, AND EXPENDITURES BY 8 PERCENT, TO 171.9 BILLION ESCUDOS. BOTH MEASURES STILL MUST BE APPROVED IN DETAIL.

2. POOR GRAIN CROP PROSPECTS: A. A CEREALS INSTITUTE SOURCE TOLD THE PRESS JUNE 22 THAT THE 1977 WHEAT CROP MAY BE THE WORST IN 50 YEARS, AS SMALL AS 180,000 TONS. IF SO, IT WOULD REPRESENT A DROP OF SOME 70 PERCENT FROM LAST YEAR'S LEVEL. THE MAY REPORT OF THE STATISTICS INSTITUTE FORECASTS THAT THE PER HECTARE YIELD FOR WHEAT WILL BE 58 PERCENT BELOW LAST YEAR'S LEVEL, WHILE THAT FOR RYE WILL DOWN 32 PERCENT, OATS DOWN 54 PERCENT, AND BARLEY DOWN 56 PERCENT. THESE YIELDS WOULD BE, RESPECTIVELY, 57 PERCENT, 35 PERCENT, 35 PERCENT AND 47 PERCENT BELOW THE TEN YEAR AVERAGE.

B. THE SPOKESMAN ALSO REPORTED THAT THE CEREALS INSTITUTE HAS PLANNED OR HAS UNDER CONSTRUCTION 250,000 TONS OF GRAIN STORAGE TO ADD TO ITS EXISTING CAPACITY OF 550,000 TONS.

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3. INFLATION GAINING: THE MAY OFFICIAL CONSUMER PRICE INDEX FOR LISBON (BASE YEAR EQUALS 1963) INDICATES THAT INFLATION IS INCREASING. THE COMPOSITE INDEX (INCLUDING HOUSING) ROSE 2.6 PERCENT FROM THE PREVIOUS MONTH, AND WAS UP 50.6 PERCENT OVER MAY 1976. EXCLUDING HOUSING, THE INDEX ROSE 5.1 PERCENT FROM APRIL AND 42.1 PERCENT FROM MAY 1976. THE FOOD COMPONENT ROSE 6.7 PERCENT ADD 54.3 PERCENT, RESPECTIVELY. THE AVERAGE FOR THE FIRST FIVE MONTHS OF 1977 (INCLUDING HOUSING) WAS 33.6 PERCENT ABOVE THE SAME PERIOD OF 1976; EXCLUDING HOUSING, IT WAS UP 29.2 PERCENT. THE FOOD COMPONENT WAS UP 36.2 PERCENT.

4. AGRICULTURE MINISTER EXPLAINS GOP POLICIES:

A. IN A JUNE 30 ADDRESS TO THE LISBON DIPLOMATS' ASSN., AGRICULTURE AND FISHERIES MINISTER ANTONIO BARRETO MADE THE FOLLOWING PRINCIPAL POINTS CONCERNING GOP'S PROPOSED NEW AGRARIAN REFORM LAW.

-- IT IS DESIGNED TO ENCOURAGE INTENSIVE CULTIVATION. IT WILL PENALIZE THOSE WHO ABANDON OR POORLY UTILIZE LAND. THE GOP WILL COMPEL THE OWNER TO RENT ABANDONED LAND AND CHANGE THE TYPES OF CROPS ON THAT WHICH IS POORLY

UTILIZED.

-- A NEW POINT SYSTEM WILL STIMULATE INVESTMENTS AND INSURE THE  
POSSIBILITY OF PROSPEROUS AND VIABLE FARMS. STUDIES INDI-  
CATED THAT 50,000 POINTS WERE RIGHT ON THE SURVIVAL BORDERLINE,

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AND DIDN'T PERMIT INVESTMENTS.

-- THE MAXIMUM POINTS ALLOWED WILL BE RAISED FROM 50,000  
TO 70,000. FURTHERMORE, IMPROVEMENTS AND INVESTMENTS  
WILL NOT BE COUNTED IN CALCULATING TOTAL POINTS.  
-- THE NEW LAW WILL RESULT IN EXPROPRIATION OF A TOTAL  
OF 1.9 MILLION HECTARES (600-700,000 HECTARES IN ADDITION  
TO THE 1.2 MILLION ALREADY EXPROPRIATED.) THE LAND AND  
ASSETS TO BE RESERVED UNDER THE 70,000 POINTS SYSTEM WILL  
BE DEMARCATED BEFORE EXPROPRIATION. THE GOP WILL CARE-  
FULLY MEASURE THE CAPABILITY OF THOSE TO RECEIVE EXPROPRIA-  
TED LAND, AND WILL HAVE TO FOLLOW THE FUTURE PROGRESS OF  
ALL "NATIONALIZED" LAND.

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-- NO ONE WILL RECEIVE "FREE" LAND; IT WILL BE GRANTED AGAINST A "RENT." PROPRIETORS IN THE NORTH HAVE TO PAY PROPERTY TAXES; THOSE WHO BENEFIT FROM AGRARIAN REFORM WILL HAVE TO PAY FOR USING THE "PROPERTY OF THE NATION."

B. THE MINISTER SAID ALSO THAT THE GOP'S ASSISTANCE TO FARMERS WILL HAVE TO BE IMPROVED. HE NOTED THAT 76 PERCENT OF THE GOVERNMENT'S AGRICULTURAL TECHNICIANS AND EXTENSION AGENTS LIVE LISBON, "WHERE CROPS DON'T GROW VERY WELL." MEANWHILE, THE ALENTEJO REGION NOW POSSESSES TOO MUCH AGRICULTURAL MACHINERY, WHICH IS UNDERUTILIZED.

C. THE BRITISH EMBASSY'S COMMERCIAL COUNSELOR PRESSED BARRETO ON COMPENSATION FOR EXPROPRIATED FOREIGN LAND-OWNERS. THE MINISTER SAID THAT THE COUNCIL OF MINISTERS IS CONSIDERING A DECREE AUTHORIZING IMMEDIATE "PRELIMINARY" COMPENSATION FOR THOSE "WHO WILL INVEST THE FUNDS."

5. EXCHANGE RATE: LISBON CHECK BUY RATE CLOSED JUNE 30 AT 38.491.

6. COMMENT: A. THE PROPOSED STRIKE LAW REPORTEDLY IS VERY CLOSE TO THAT OF MOST WESTERN EUROPEAN COUNTRIES.

B. EARLY GOP CROP ESTIMATES HAVE A TENDENCY TO BE IMPROVED AFTER THE CROP IS IN. HOWEVER, BY ANY STANDARDS THIS YEAR'S GRAIN CROPS ARE ALMOST SURE TO BE EXTREMELY POOR. ANYTHING ON THE MAGNITUDE OF THE PROJECTED DROP IN WHEAT PRODUCTION ALONE WILL ADD ABOUT \$50 MILLION TO PORTUGAL'S FOOD IMPORT BILL.

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## Message Attributes

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